

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

COMPLAINT OF THE
GREETING CARD ASSOCIATION

Docket No. C2020-2

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 1

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 1, issued on March 27, 2020. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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April 3, 2020

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1. Please refer to the Postal Service's Motion to Dismiss, in which the Postal Service states that it has "found that Stamped Letters and Metered Letter have different price elasticities."¹ Please provide any supporting data and documentation for the Postal Service's statement that Stamped Letters and Metered Letters have different price elasticities.

RESPONSE:

Based on the RPW data gathered from the Fourth Quarter of 2014 through the First Quarter of 2020, the United States Postal Service ("USPS") has found that Stamped Letters and Metered Letters have different price elasticities. Specifically, the estimated own-price elasticity of Stamped Letters is -0.131, and the estimated own-price elasticity of Metered Letters is -0.202. The full econometric output for these price elasticities are attached to this response (see Appendix I). These results are suggestive that Metered Letters are more price-sensitive than Stamped Letters. As result of these findings, the USPS has adopted separate econometric demand equations for First-Class, Single-Piece Stamped and Metered Letters for use in developing its most recent volume forecasts.

¹ USPS Motion to Dismiss at n2.

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2. Please provide the number of First-Class Single-Piece Metered Letter customer accounts for each fiscal year, from 2014-2019.

RESPONSE:

	Customer Meter Accounts
FY2014	4,022,299
FY2015	9,905,745
FY2016	13,865,223
FY2017	16,899,185
FY2018	18,780,755
FY2019	21,236,099

Source: National Meter Accounts and Tracking System

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3. The table below presents an estimate of the difference in mail processing unit costs of Stamped Letters and Metered Letters. The unit mail processing cost of Stamped Letters is calculated based on the volumes and costs for Metered Letters and total First-Class Single-Piece Letters provided with the Postal Service's Annual Compliance Report. Please confirm the accuracy of the figures in the table and the reasonableness of the resulting estimate. If an alternative approach would be more accurate, please provide the resulting estimate and show how it is calculated.

Estimate of Mail Processing Cost Differentials			
Category	Volume	Unit Cost	Total Cost
	(000)	Cents per Piece	(\$000)
Stamped Letters	10,001,370	16.84	\$ 1,684,170
Metered Letters	5,952,564	13.63	\$ 811,277
Total FC Single Piece Letters	15,953,934	15.64	\$ 2,495,446
Mail Processing Unit Cost Difference		3.21	

Sources:Volume

Stamped Letters: By subtraction, Total FCSP Letters - Metered Letters

Metered Letters: Docket No. ACR2019, USPS-FY19-26, December 27, 2019, "Shp19prc.xlsx," tab "Products," Cell AA13

Total FCSP Letters: Docket No. ACR2019, USPS-FY19-26, December 27, 2019, "Shp19prc.xlsx," tab "Products," Cell D13

Unit Cost

Stamped Letters: Total Cost / Volume

Metered Letters: Docket No. ACR2019, USPS-FY19-26, December 27, 2019, "Shp19prc.xlsx," tab "LTTR Unit Costs Final Adj.," Cell O59

Total FCSP Letters: Docket No. ACR2019, USPS-FY19-26, December 27, 2019, "Shp19prc.xlsx," tab "LTTR Unit Costs Final Adj.," Cell D59

Total Cost

Stamped Letters: By subtraction, Total FCSP - Metered Letters

Metered Letters: Volume * Unit Cost

Total FCSP Letters: Volume * Unit Cost

RESPONSE:

Confirmed. The table correctly reports data from USPS-FY19-26. We note that the mail processing costs for metered mail includes costs for PVI pieces (which pay stamped prices). Also, the Postal Service understands that the Single-Piece Metered

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Letter cost in USPS-FY19-26 is intended to represent the Metered mail benchmark cost for applicable worksharing discounts, and thus includes PVI indicia in accordance with the Commission's determination that PVI should be included with other IBI and Single-Piece Metered Letter costs. See Docket No. RM2013-10, Order No. 1890, Order On Price Adjustments For Market Dominant Products And Related Mail Classification Changes, Nov. 21, 2013, at 50 (hereinafter "Order No. 1890"); Docket No. RM2010-13, Order No. 1320, Order Resolving Technical Issues Concerning the Calculation of Workshare Discounts, Apr. 20, 2012, at 11. Additionally, the residual-based calculation of Single-Piece Stamped Letter cost includes the costs of other indicia types (e.g., permit imprint pieces). While these calculations could be further refined to isolate the costs of material subject to Single-Piece Stamped Letter and Single-Piece Metered Letter rates as previously mentioned, the Postal Service believes further refinement may not be necessary, since Single-Piece Stamped and Single-Piece Metered pieces comprise the vast majority of the costs and volumes in each category. Thus, the Postal Service believes the resulting estimate is reasonable.

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4. Please refer to Docket No. ACR2019, Library Reference USPS-FY19-19, December 27, 2019, folder "Delivery Model Files," Excel file "UDCModel19.xlsx," tab "1.Table 1," cells C8 and C9.
- a. Please confirm that the unit cost of delivery for First-Class Single-Piece Stamped Letters is 10.565 cents per piece. If not confirmed, please explain, and provide the Postal Service's best estimate of unit delivery cost for First-Class Single-Piece Stamped Letters.
 - b. Please confirm that the unit cost of delivery for First-Class Single-Piece Metered Letters is 11.819 cents per piece. If not confirmed, please explain and provide the Postal Service's best estimate of unit delivery cost for First-Class Single-Piece Metered Letters.
 - c. Please discuss the reasons why the unit delivery cost for First-Class Single-Piece Stamped Letters is less than the unit delivery cost for First-Class Single-Piece Metered Letters.

RESPONSE:

a&b. Confirmed that the unit delivery costs for Single-Piece Stamped Letter and Single-Piece Metered Letter correctly report data from USPS-FY19-19. However, as with the mail processing costs discussed in the response to Question 3 above, the unit delivery costs noted in Question 4(a) and (b) include additional categories of indicia, and are similarly subject to potential refinement to isolate costs and volumes for Single-Piece Stamped Letters and Single-Piece Metered Letters respectively. The delivery costs for Single-Piece Stamped Letters include costs for these pieces bearing postal validation imprint (PVI). See Preface to USPS-FY14-19 at 1; Order No. 1890 at 50. The delivery costs for Single-Piece Metered Letters include costs for pieces bearing permit imprint.

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Nevertheless, the Postal Service does not believe the refinements would qualitatively affect the measured unit delivery cost differential between Single-Piece Stamped Letter and Single-Piece Metered Letter mail.

c. The unit delivery costs are higher for First-Class Single-Piece Metered Letters than for First-Class Single-Piece Stamped Letters because a larger portion of Single-Piece Metered Letters incur carrier costs. Unit delivery costs in USPS-FY19-19 are the ratio of aggregate direct and indirect city and rural carrier costs to RPW volume. The carrier costs are those costs sustained in the collection and delivery of mail by city and rural carriers. Thus, unit delivery costs depend on the mix of delivery modes, including modes such as PO Box or other bulk pickup options that do not involve carrier delivery. Single-Piece Metered Letters are more likely to be sent to carrier-served addresses, and as a consequence they experience additional carrier costs. Table 1 below illustrates that in FY 2019, 84 percent of total Single-Piece Metered Letter volume was delivered by city and rural carriers as compared with 60 percent for Single-Piece Stamped Letters. Accordingly, Single-Piece Metered Letters on a unit basis incur more carrier costs resulting in higher unit delivery costs than Single-Piece Stamped Letters. This result is not surprising as a large amount of Single-Piece Stamped Letters volume is remittance mail (e.g., utility bill payments) that typically bypasses carrier contact and consequently delivery costs at its destination.

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Table 1
FY 2019 RPW, CCCS, and RCCS First-Class Single-Piece Letter Volumes (000) by Indicia

Category	RPW Volume *	CCCS Volume *	RCCS Volume *	CCCS+RCCS Volume	CCCS+RCCS % of RPW
	(1)	(2)	(3)	(4)=(2)+(3)	(5)=(4)/(1)
First-Class Single Piece Letters					
Stamped	9,157,762	3,389,964	2,065,717	5,455,681	60%
Metered	6,781,335	3,856,439	1,867,104	5,723,543	84%
Total	15,939,097	7,246,403	3,932,821	11,179,224	70%

* Source: USPS-FY19-19, workbook UDCInputs19, tab FCByIndicia

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5. Please confirm that Docket No. ACR2019, Library Reference USPS-FY19-32, December 27, 2019, folder "B Workpapers," Excel file "CS16-Public-FY19.xlsx," tab "Inputs," cell D54 shows the total volume of Stamped Mail is 13.7 billion pieces. If not, please explain.

RESPONSE:

Confirmed.

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6. Please confirm that the general Ledger Account, Account Numbers 51101.15-56661.150, when summed, show that the total cost of stamp distribution equals \$5,501,637. If not confirmed, please explain.

RESPONSE:

Not confirmed. It appears that the question may have intended to identify a range of GL accounts from 51101.150 to 51401.150 instead of accounts from 51101.15 to 56661.150. Based on our review of the accounts, there does not appear to be an account 56661.150.

The sum of expenses in GL accounts from 51101.150 to 51401.150 (filtering the accounts to those whose last three digits are 150) is \$5,501,637. Thus, the total cost of stamp distribution identified in the question is confirmed. We would like to note that the total cost of stamp distribution excludes the GL account 51413.150 (travel for training) that has expenses totaling \$15,249. It is unclear as to why the expenses in GL account 51413.150 were excluded in this calculation as we typically treat costs associated with travel for training activities in the same fashion as other personnel costs.

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7. Please confirm that the general Ledger Account, Account Numbers 52441.000-51401.150, when summed, show that the total cost of stamp production equals \$34,976,215. If not confirmed, please explain.

RESPONSE:

Not confirmed. In reviewing the range of GL accounts listed in this question, it appears as though that the question intended to identify a range of GL accounts from 52441.000 to 56661.699 instead of a range of GL accounts from 52441.000 to 51401.150.

If the expenses from GL accounts ranging from 52441.00 to 56661.699 (filtering on names associated with stamps, postage, etc.) are summed, then the total cost of stamp production (\$34,976,215) identified by the question is confirmed. Table 1 below contains the accounts and the expenses that were aggregated to obtain the same figure cited in the question.

**Table 1
FY 2019 GL Accounts and Expenses Associated with Stamp Production**

GL ACCOUNT	COST CODE	DESCRIPTION	FY 2019 EXPENSE
52441	16C02	COST OF POSTAGE STOCK	\$ 42,086,051
56301	18U	STAMP ADVISORY COMMITTEE	\$ 39,440
56661173	20G03	SDO/SSC STAMP STOCK SHORTAGE	\$ (2,858,441,671)
56661221	20G03	STAMP STOCK OVERAGES - MPOS	\$ (203,573)
56661299	20G03	STAMP STOCK SHORTAGE	\$ (54,705,685)
56661621	20G03	STAMP STOCK SHORTAGES - MPOS	\$ 456,078
56661673	20G03	SDO/SSC STAMP STOCK OVERAGE	\$ 2,857,447,349
56661699	20G03	STAMP STOCK OVERAGE	\$ 48,298,226
Total			\$ 34,976,215

Source: USPS-FY19-5, tabs seg 16, seg 18, and seg 20

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8. Please refer to Docket No. ACR2019 Library Reference USPS-FY19-2, December 27, 2019, Excel file "FY19Public Cost Segs and Comps.xlsx", tab "CS03," cell D8.
 - a. Please confirm that First-Class Single-Piece Letters window services costs were \$205.3 million in FY 2019. If not, please explain.
 - b. Please provide any available information about the proportion of these costs incurred by stamped letters and the proportion incurred by metered letters.

RESPONSE:

a. Confirmed.

b. Table 1 below shows the window service costs incurred by Single-Piece Stamped Letters and Single-Piece Metered Letters, defined consistently with the mail processing costs shown in Question 3 of this ChIR. Single-Piece Stamped Letters incur 95.1 percent and Single-Piece Metered Letters incur 4.9 percent of window service costs for First-Class Single Piece letters, resulting in a unit cost difference of 2.48 cents per piece including piggybacks (2.72 - 0.24 cents).

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**Table 1
FY 2019 Window Service (C/S 3.2) Costs (\$000) by Indicia**

Category	FY19 Costs	FY19 Piggyback Factor *	Piggybacked FY19 Costs	Unit Cost Cents/Piece
First-Class Single Piece Letters				
Stamped				
Direct Labor	34,671	1.3938	48,325	
Stamp Sales	156,141	1.3938	217,631	
Stamped Envelopes	4,346	1.3938	6,058	
Total Stamped	195,158		272,015	2.72
Metered	10,122	1.3938	14,108	0.24
Total	205,280		286,123	
Stamped - Metered Difference				2.48
Percent Stamped	95.1%		95.1%	
Percent Metered	4.9%		4.9%	

* Source: USPS-FY19-24; FY19Public.PB.xls, worksheet 'Window'

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APPENDIX I

Mail Category:

First-Class SP Stamped Letters
SP Stamped Letters - since 2014Q4

Sample Period: 2014.4 TO 2020.1

Non-Seasonal Variables

	Coefficients	Std. Error	T-Ratio
CONSTANT	-1.656880	0.383467	-4.320785
EMPLOY(-1)	0.765728	0.377351	2.029217
PC01SP_LS	-0.131045	0.169363	-0.773753
lag 1	-0.000000	0.000009	-0.000008
lag 2	-0.000000	0.000009	-0.000021
lag 3	-0.000000	0.000009	-0.000030
lag 4	-0.000000	0.000009	-0.000012

Long-Run Price Elasticities

	PC01SP_LS
Current	-0.131045
Lag 1	-0.000000
Lag 2	-0.000000
Lag 3	-0.000000
Lag 4	-0.000000
Sum	-0.131045
T-Statistic on Sum	-0.773753

Trend Starting in 2014.4

	Coefficient	Std Error	T-Ratio
W3: Long-Run Trend	-0.019625	0.001115	-17.60804

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Seasonal Variables				
	Coefficients	Std. Error	T-Ratio	
GQTR1	0.347324	0.013002	26.714039	
GQTR2	0.114568	0.013742	8.336886	
GQTR3	0.076567	0.013639	5.614049	

SEASONAL INDEX				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2014				-0.138165
2015	0.209159	-0.023596	-0.061597	-0.138165
2016	0.209159	-0.023596	-0.061597	-0.138165
2017	0.209159	-0.023596	-0.061597	-0.138165
2018	0.209159	-0.023596	-0.061597	-0.138165
2019	0.209159	-0.023596	-0.061597	-0.138165
2020	0.209159			

REGRESSION DIAGNOSTICS	
Sum of Sq Resids	0.007581
Mean Square Error	0.000505
Unadjusted Mean Square Error	

Full Sample	0.000505
Last 5 Yrs	0.000340
Last 4 Yrs	0.000287
Last 3 Yrs	0.000305
Last 2 Yrs	0.000366
Last 1 Yr	0.000063
Durbin-Watson	2.219057
R-Square	0.988532
Adj. R-Square	0.983945
Degrees of Freedom	15

SHAPIRO-FRANCIA TEST FOR NORMALITY OF RESIDUALS	

Test Statistic	P-Value
-----	-----
0.958	0.390

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AUGMENTED DICKEY FULLER TEST FOR STATIONARITY

	Test Statistic	Critical Value
Dependent Variable	-1.596	-3.634
Residuals	-2.881	-1.973

Null hypothesis: Variable contains a unit root

For dependent variable, model is AR(4) with constant and time trend
For residuals, model is AR(4) with no constant, no trend

Critical values are calculated for a 5% significance level
from 'Lag Order and Critical Values of the Augmented Dickey-Fuller Test'
by Yin-Wong Cheung and Kon S. Lai,
Journal of Business & Economic Statistics, July, 1995, p. 278

Mechanical Net Trends

	Forecast Period				
	4 Yrs Ago	3 Yrs Ago	2 Yrs Ago	1 Yr Ago	Last 4 Qtrs
Base 5 Yrs Ago	1.010918	0.996055	1.002669	1.003442	0.999747
Base 4 Yrs Ago		0.981412	0.998570	1.000963	0.996974
Base 3 Yrs Ago			1.016028	1.010884	1.002216
Base 2 Yrs Ago				1.005766	0.995380
Base 1 Yr Ago					0.985102

Fixed Restrictions	
Variable(s)	Coefficient
-----	-----
Restriction 1	
PC01SP_LS_LAG4	0.000000
Restriction 2	
PC01SP_LS_LAG3	0.000000
Restriction 3	
PC01SP_LS_LAG2	0.000000
Restriction 4	
PC01SP_LS_LAG1	0.000000

Stochastic Restrictions			
Variable(s)	Coefficient	Std. Error	T-Statistic
-----	-----	-----	-----
Restriction 1			
EMPLOY(-1)	0.750189	0.375094	2.000000

SHILLER K-SQUARED VALUES

PC01SP_LS	0.000000
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AUTOCORRELATION STRUCTURE OF FINAL RESIDUALS

Lag	Auto-Correlation	Partial Auto-Correlation	Standard Error	T-Stat on Partial
1	-0.126972	-0.125752	0.218218	-0.576269
2	-0.184327	-0.190943	0.223607	-0.853923
3	-0.114841	-0.162575	0.229416	-0.708648
4	-0.300494	-0.317375	0.235702	-1.346509
5	0.061896	-0.148646	0.242536	-0.612883
6	-0.052120	-0.247683	0.250000	-0.990732
7	0.277874	0.095563	0.258199	0.370112
8	-0.051995	-0.219720	0.267261	-0.822118
9	0.077775	0.086044	0.277350	0.310235

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Recursive Residuals (normalized: (Ln(Actual) - Ln(Forecast)) / SE				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2017			2.642	2.248
2018	0.196	0.399	-1.019	-1.113
2019	1.539	-0.707	-0.057	-1.259
2020	0.560			
Cumulative Sum of One-Quarter-Ahead Residuals				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2017			2.642	4.890
2018	5.086	5.484	4.466	3.352
2019	4.891	4.184	4.127	2.868
2020	3.427			
Normalized CUSUM CUSUM divided by Confidence Level				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2017			0.929	1.216
2018	1.032	0.964	0.702	0.481
2019	0.650	0.520	0.484	0.319
2020	0.363			
Change in Normalized CUSUM				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2017			0.929	0.287
2018	-0.183	-0.068	-0.262	-0.221
2019	0.169	-0.130	-0.036	-0.165
2020	0.044			
Quarters Dummied Out				
	Coefficients	Std. Error	T-Ratio	
D2018Q2	0.017272	0.019370	0.891718	
D2018Q3	-0.032535	0.020268	-1.605229	
D2018Q4	-0.048839	0.020964	-2.329642	
D2019Q1	0.031444	0.020860	1.507395	
D2019Q2	-0.054095	0.031088	-1.740039	
D2019Q3	-0.075292	0.038224	-1.969777	
D2019Q4	-0.100407	0.039455	-2.544874	
D2020Q1	-0.071433	0.038587	-1.851230	

Mean Dummy Coefficient	-0.041735			
Mean-Squared Error	0.003564			
Trend Coefficient in Last Quarter of Estimation				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2017			-0.281141	-0.048485
2018	-0.033609	-0.008137	-0.023018	-0.029440
2019	-0.019237	-0.022915	-0.023514	-0.032056
2020	-0.019625			

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REGRESSION RESIDUALS (Final)

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2014				0.014621
2015	-0.023629	-0.026261	0.035231	0.016217
2016	0.004931	0.003845	-0.018147	-0.020344
2017	-0.013136	0.006981	-0.007496	0.024686
2018	-0.003738	0.020341	-0.012687	-0.021257
2019	0.040644	-0.004906	0.003099	-0.013924
2020	-0.005073			

CONTRIBUTIONS TO CHANGE IN First-Class SP Stamped Letters VOLUME SINCE 2014.4

Volume in First Year of Test Period			12922.931
Variable	Percent Change In Variable	Elasticity	Effect of Variable on Volume
Own-Price	2.69%	-0.131	-0.35%
EMPLOY(-1)	3.93%	0.766	3.00%
Adult Population			4.44%
Interventions Starting in: 2014Q4			-29.78%
Seasonals			0.00%
Other Factors			-0.44%

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Mail Category:

First-Class SP Metered Letters
SP Metered Letters - since 2014Q4

Sample Period: 2014.4 TO 2020.1

Non-Seasonal Variables

	Coefficients	Std. Error	T-Ratio
CONSTANT	-2.227341	0.402834	-5.529180
EMPLOY(-1)	0.806711	0.388506	2.076442
PC01SP_LM	-0.201819	0.188342	-1.071557
lag 1	0.000000	0.000010	0.000032
lag 2	0.000000	0.000010	0.000056
lag 3	0.000000	0.000010	0.000086
lag 4	0.000000	0.000010	0.000067

Long-Run Price Elasticities

	PC01SP_LM
Current	-0.201819
Lag 1	0.000000
Lag 2	0.000000
Lag 3	0.000000
Lag 4	0.000000
Sum	-0.201819
T-Statistic on Sum	-1.071557

Trend Starting in
2014.4

	Coefficient	Std Error	T-Ratio
W3: Long-Run Trend	-0.016758	0.001282	-13.07683

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Seasonal Variables				
	Coefficients	Std. Error	T-Ratio	
GQTR1	0.073125	0.010990	6.653847	
GQTR2	0.072602	0.011588	6.265429	
GQTR3	0.009033	0.011488	0.786333	

SEASONAL INDEX				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2014				-0.038497
2015	0.034629	0.034106	-0.029463	-0.038497
2016	0.034629	0.034106	-0.029463	-0.038497
2017	0.034629	0.034106	-0.029463	-0.038497
2018	0.034629	0.034106	-0.029463	-0.038497
2019	0.034629	0.034106	-0.029463	-0.038497
2020	0.034629			

REGRESSION DIAGNOSTICS	
Sum of Sq Resids	0.005376
Mean Square Error	0.000358
Unadjusted Mean Square Error	

Full Sample	0.000358
Last 5 Yrs	0.000253
Last 4 Yrs	0.000227
Last 3 Yrs	0.000180
Last 2 Yrs	0.000178
Last 1 Yr	0.000308
Durbin-Watson	1.952237
R-Square	0.974126
Adj. R-Square	0.963777
Degrees of Freedom	15

SHAPIRO-FRANCIA TEST FOR NORMALITY OF RESIDUALS	

Test Statistic	P-Value
-----	-----
0.981	0.870

CERTIFICATE OF SERVICE

I, Amanda Hamilton, hereby certify that on April 3, 2020, I caused a true and correct copy of USPS's Response to Chairman's Information Request No. 1 to be served on the following parties via the Postal Regulatory Commission's efilings system and electronic mail as indicated:

David Stover
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/s/ Amanda Hamilton
Amanda Hamilton
Attorney for U.S. Postal Service